

Gleim CIA Review
Updates to Part 3
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NOTE: Sections with changes are indicated by a vertical bar in the left margin. Text that should be deleted is displayed with a line through it. New text is shown with blue underlined font.

Study Unit 5 – Workstations, Databases, and Applications

Pages 144-146, Subunit 5.1, Item 5.: This update revises the outline to reflect that IT and IS strategy are often used interchangeably.

5. Governance, Risk, and Compliance (GRC) Systems

- a. **Data governance** encompasses information systems (IS) and information technology (IT). IS and IT are vital to ensure the successful implementation of an organization's strategy. ~~IS~~IT strategy should be driven by the business needs and not by the functions of available technology when formulating a plan to achieve goals.
 - 1) An IT strategic plan should be aligned with organizational goals and integrated with the overall business strategy.
 - 4)2) Individual departments may function well in terms of their own goals but still not serve the goals of the organization.
 - 2)3) IS infrastructure purchases need to be implemented in accordance with the ~~IS~~IT strategic plan to ensure business needs are met.
 - 3)4) Business owners, employees, customers, and financiers such as banks have a vested interest in the strategy.
 - 4)5) The IIA Global Technology Audit Guide (GTAG) on information technology controls discusses IT roles in the organization. Key people are involved in determining and supporting an entity's overall vision and strategy. Examples include but are not limited to the following:
 - a) **Board of directors.** All major corporate decisions (including establishment of IT governance and strategy) are made or approved by the board. The board has an oversight role.
 - b) **Management.** The corporation's officers (i.e., executive management) are responsible for carrying out the entity's day-to-day operations, such as implementing effective security governance.
 - i) Officers include the chief executive officer (CEO), chief information officer (CIO), and chief information security officer (CISO).
 - c) **Internal auditors.** Internal auditors' IT roles include performing IT risk assessments, advising on internal control issues, and performing IT audits of enterprise-level, general, and applications controls.

- b. ~~An IS strategic plan incorporates the organization's vision and mission to ensure the strategy includes the needs of the business.~~
- 1) ~~The vision statement describes the organization's aspirations for what it intends to achieve over time.~~
 - 2) ~~The mission statement expands on the vision statement by communicating the organization's goals and why it exists.~~
 - a) ~~The goals should provide guidance for the IT infrastructure to create a detailed strategic plan for achieving those goals.~~
 - b) ~~Systems to provide information for decision-making purposes can be implemented to ensure adherence to the organization's vision and mission.~~
- eb. Organizations generally develop strategies at three different levels.
- 1) **Corporate-level strategy** is concerned with market definition (i.e., business and markets to focus resources).
 - 2) **Business-level strategy** applies to organizations that have independent business units that each develop their own strategy.
 - 3) **Functional-level strategy** concentrates on a specific functional area of the organization such as treasury, information systems, human resources, and operations.
- ec. Strategic drivers are the critical elements that help determine the success or failure of an organization's strategy. IS has become a strategic driver in most, if not all, organizations.
- 1) New technologies create opportunities for improvement and competitive advantage.
 - 2) **Customer relationship management (CRM)** is a term that refers to practices, strategies, and **technologies** that companies use to manage and analyze customer interactions and data throughout the customer lifecycle. CRM
 - a) Has a goal of improving business relationships with customers, assisting in customer retention, and driving sales growth.
 - b) Is designed to compile information on customers across different channels or points of contact between the customer and the company.
 - c) Should manage customer relationships on a long-term basis to add value.
- e. ~~Business IS strategy and business IT strategy differ as follows:~~
- 1) ~~Business IS strategy is focused on determining what IT must be provided to accomplish the goals of the business strategy.~~
 - 2) ~~Business IT strategy~~
 - a) ~~Concentrates on information needs and ensures the IS strategy aligns with the business strategy.~~
 - b) ~~Develops and explains the information architecture that will provide the best return for the organization, i.e., the~~
 - i) ~~Data, process, information, organizational network, and stakeholders~~
 - ii) ~~Information technology trends and opportunities~~
 - iii) ~~Technology to support the business aims of the organization~~
 - 3) ~~Business IT strategy is focused on determining what technology and technological systems development are needed to realize the business IS strategy.~~
 - a) ~~IT strategy concentrates on how to provide the information.~~

- fd.** A well-functioning governance program generally concentrates on the following:
- 1) **Strategic alignment** between the organization's goals and IT's strategy for meeting those goals.
 - 2) **Risk** management involves identifying the controls in place to monitor, analyze, and address risks.
 - 3) **Value delivery** is assessed by the organization to determine the benefits provided by and the worth of IT (i.e., return on investment, productivity, and implementation results).
 - 4) **Performance measurement** involves analysis of whether IT has accomplished set goals and comparison to industry standards. The IIA has categorized the key components of successful IT governance as follows:
 - a) IT processes that are used to provide services to all areas within the organization
 - b) Organizational structure (i.e., roles and relationships) that communicates the carrying out of IT services within the organization
 - c) Mechanisms or courses of action that coordinate, evaluate, and measure IT performance
 - 5) **Resource management** involves ensuring that infrastructure is meeting short-term expectations and identifying IT enhancements and advancements that are necessary to meet long-term expectations.
- ge.** GRC software enables organizations to manage the governance program strategy.
- 1) GRC systems assist management with monitoring, evaluating, and enforcing policies, standards, and procedures established to ensure compliance.
 - 2) Characteristics associated with successful GRC systems implementation include but are not limited to
 - a) Compliance with laws and regulations
 - b) Increased efficiency and effectiveness of business operations while reducing costs
 - c) Risk management, control monitoring, and an information sharing focus
 - d) Identification of the roles of management and who owns each risk, controls risk content, and approves those risks
 - e) Cascade of information throughout the organization improving various functions

Page 165, Subunit 5.1, Question 7: This update revises the question to reflect that IT and IS strategy are often used interchangeably.

7. Information systems (IS) ~~technology (IT)~~ strategy is determined by

- A. Business needs.
- B. Individual department needs.
- C. The technology available.
- D. Competitors' strategies.

Answer (A) is correct.

REQUIRED: The item that determines information systems ~~technology~~ strategy formulation.

DISCUSSION: Information systems (IS) and ~~information technology (IT)~~ are vital to the successful implementation of an organization's strategy. ~~IS~~ IT strategy should be driven by the business needs and not by the functions of available technology when formulating a plan to achieve goals.

Answer (B) is incorrect. Individual departments may function well in terms of their own goals but still not serve the goals of the organization. **Answer (C) is incorrect.** Technology is vital to the successful implementation of an organization's strategy. IS infrastructure purchases need to be implemented in accordance with the ~~IS~~ IT strategic plan to ensure business needs are met. **Answer (D) is incorrect.** Although being familiar with the strategies of competitors is useful, strategy should be driven by the business's needs. Competitors' strengths and weaknesses may differ from those of the business.

Page 165, Subunit 5.1, Question 9: "All of the following are true statements about mission and vision. . ." was removed because it did not clearly reflect the interchangeability of IT and IS strategy. Subsequent questions have been renumbered accordingly.

Page 166, Subunit 5.1, Question 11: "All of the following are correct statements regarding business information systems. . ." was removed because it did not clearly reflect the interchangeability of IT and IS strategy. Subsequent questions have been renumbered accordingly.

Study Unit 10 – Advanced Financial Accounting Concepts and Analysis

Page 304, Subunit 10.1, Item 1.: This update clarifies the difference between the return formula and the return on investment (ROI) formula.

10.1 RISK AND RETURN

1. Rate of Return

- a. A return is the amount received by an investor as compensation for taking on the risk of the investment.

~~Return on investment (ROI) = $\frac{\text{Amount received} - \text{Amount invested}}{\text{Amount invested}}$~~

Return = Amount received – Amount invested

EXAMPLE 10-1 Return on Investment

An investor paid US \$100,000 for an investment that returned US \$112,000. The investor's return is US \$12,000 (\$112,000 – \$100,000).

- b. The rate of return is the return stated as a percentage of the amount invested.

Rate of return = $\frac{\text{ROI Return}}{\text{Amount invested}}$

EXAMPLE 10-2 Rate of Return

The investor's rate of return is 12% (US \$12,000 ÷ \$100,000).



Note that the return formula presented above differs from the return on investment (ROI) formula presented in Subunit 10.9. The return looks at a specific investment's profitability relative to the amount invested, whereas the ROI formula indicates how well a business is using its resources to generate operating income.

Study Unit 12 – Capital Structure and Budget, Basic Taxation, and Transfer Pricing

Page 373, Subunit 12.4, Item 6.: This update clarifies the payback period formula.

6. Payback Period

- a. The payback period is the number of years required for the net cash savings or inflows to equal the original investment, i.e., the time necessary for an investment to pay for itself.
 - 1) Companies using the payback method set a maximum length of time within which projects must pay for themselves to be considered acceptable.
- b. If the cash flows are constant, the formula is

$$\text{Payback period} = \frac{\text{Initial investment}}{\text{Annual after-tax cash savings} + \text{or inflows}}$$

- 1) This method ignores the time value of money.